

**NOTE:** These minutes were approved and executed at the December 21, 2012 Independent Investment Committee meeting.

**Independent Investment Committee  
November 16, 2012**

**Public Minutes**

**New Hampshire Retirement System  
54 Regional Drive  
Concord, NH 03301**

*Committee Members:* Harold Janeway, *Chair*; David Jensen; Patrick O'Donnell; Catherine Provencher; and Hersh Sosnoff.

*Staff:* George Lagos, *Executive Director*; Larry Johansen, *Director of Investments*; Jack Dianis, *Director of Finance*; Jeff Gendron, *Investment Officer*; Scott Needham, *Investment Analyst*; and Greg Richard, *Investment Analyst*.

*NEPC, LLC:* Kevin Leonard, *Partner and Senior Consultant*; and Sean Gill, *Partner*.

Mr. Janeway called the meeting to order at 9:01 a.m. He surveyed the Committee for comments on the draft public minutes of the October 19, 2012 Investment Committee meeting. As there were none, a motion to approve the public minutes of the October 19, 2012 Investment Committee meeting was made by Mr. Jensen and seconded by Mr. Sosnoff. The motion carried unanimously.

Mr. Johansen referred to the Work Plan dated October 23, 2012 and provided a brief update. He indicated that he had visited the offices of private equity secondaries manager Paul Capital on November 15<sup>th</sup>. He commented that the meeting went well, and that due diligence would continue on Paul Capital in advance of a potential presentation before the Committee at the December meeting.

Mr. Johansen noted that the System's external auditor, KPMG, LLC, is in the final stages of the annual audit of NHRS. He commented that KPMG plans to issue a Management Letter in conjunction with the audit, on which they will recommend that NHRS document its alternative investment manager due diligence and monitoring processes more substantially than it has in the past. In addition, he noted that KPMG will also recommend in the Management Letter that NHRS work more closely with its real estate managers in valuing the System's remaining

direct property holdings. The Committee discussed the current and prior valuation methods with respect to the System's direct property holdings. Mr. Johansen noted that these are the only two issues identified in the KPMG Management Letter.

Mr. Janeway entertained a motion to convene into non-public session under RSA 91-A:3, II(c) for the purpose of discussing a matter which, if discussed in public, would likely affect adversely the reputation of a person other than a member of the public body. A motion was made by Mr. Jensen and seconded by Mr. Sosnoff to enter into non-public session, in accordance with the aforementioned provision.

Roll call vote:

Aye: Mr. Janeway; Mr. Jensen; Mr. O'Donnell; Ms. Provencher; and Mr. Sosnoff  
Nay: None

Motion carried.

The Committee discussed recent organizational changes at Loomis Sayles & Company, a firm that manages a multi-sector fixed income mandate on behalf of the System.

A motion was made by Mr. Jensen and seconded by Mr. Sosnoff to conclude non-public session.

Roll call vote:

Aye: Mr. Janeway; Mr. Jensen; Mr. O'Donnell; Ms. Provencher; and Mr. Sosnoff  
Nay: None

Motion carried.

Mr. Johansen referred to the 2013 Investment Committee Proposed Meeting Schedule. The Committee discussed the schedule and potential ideas for future meeting agenda items, which included: high-level macroeconomic presentations; industry perspectives on non-standard investment ideas; the impact of the proliferation of Exchange Traded Funds and indexation on stock prices; PIMCO's annual Secular Forum; investment-related presentations from academics; and a case study on the processes and procedures employed by highly successful investment programs. The Committee requested that Mr. Johansen send a list of potential topics for the January meeting agenda to the Committee for each member to prioritize. On a motion by Mr. O'Donnell, seconded by

Mr. Jensen, the Committee unanimously approved its 2013 meeting schedule as proposed.

Mr. Janeway entertained a motion to convene into non-public session under RSA 91-A:3, II(c) for the purpose of discussing a matter which, if discussed in public, would likely affect adversely the reputation of a person other than a member of the public body. A motion was made by Mr. O'Donnell and seconded by Mr. Jensen to enter into non-public session, in accordance with the aforementioned provision.

Roll call vote:

Aye: Mr. Janeway; Mr. Jensen; Mr. O'Donnell; Ms. Provencher; and Mr. Sosnoff  
Nay: None

Motion carried.

The Committee discussed Netols Asset Management (Netols), a firm that manages a Small Cap U.S. Equity mandate on behalf of the System, and the presentation Netols made at the October Committee meeting.

A motion was made by Mr. O'Donnell and seconded by Mr. Jensen to conclude non-public session.

Roll call vote:

Aye: Mr. Janeway; Mr. Jensen; Mr. O'Donnell; Ms. Provencher; and Mr. Sosnoff  
Nay: None

Motion carried.

A motion was made by Mr. Jensen and seconded by Mr. O'Donnell to renew the investment management agreement with Netols through November 2014. The motion carried unanimously.

The Committee discussed the performance of absolute return manager Arden Asset Management (Arden), who made a presentation at the October Committee meeting. The Committee discussed the liquidity provisions and considerations associated with the Arden portfolio. The Committee requested to have a further discussion of the Arden portfolio on the December meeting agenda.

Mr. Johansen commented that staff reached out to real estate manager The Townsend Group (Townsend) subsequent to Hurricane Sandy, and

Townsend confirmed that Sandy had no material impact on the System's real estate portfolio.

Mr. Johansen provided an overview of the Draft Comprehensive Annual Investment Report (CAIR), which has been updated to incorporate feedback received from the Committee at and since the October meeting. The Committee made a couple additional revisions to the document.

A motion was made by Mr. O'Donnell and seconded by Mr. Jensen for the approval of the draft CAIR, as amended by the Committee. The motion carried unanimously. The Committee directed staff to submit the final CAIR to the Board at its December meeting, with a recommendation from the Committee for approval by the Board.

Mr. Johansen and Mr. Leonard referred to NEPC's "Fixed Income Portfolio Rebalancing Recommendation for November 2012 IC Meeting" memo. Mr. Johansen noted that the rebalancing recommendation was initially presented to the Committee at its October meeting, but that due to the timing of that meeting and other considerations the discussion was deferred to the November Committee meeting.

The Committee discussed how the existing fixed income portfolio allocations were formed in addition to considerations associated with passive investing within the fixed income asset class. The Committee also discussed historical manager transitions within the fixed income asset class.

On a motion by Mr. Jensen, seconded by Mr. Sosnoff, the Committee unanimously approved the fixed income portfolio rebalancing plan as presented, specifically sub-targets of approximately: 7% to Core Fixed Income; 7% to Core Plus Fixed Income; 6% to Multi-Sector Fixed Income; and 5% to Global Bonds; with such rebalancing to be achieved through the monthly needs for cash to pay retirement benefits and support the funding of private debt capital calls.

Mr. Johansen and Mr. Gill referred to NEPC's "Private Debt & Private Equity Pacing Analysis" presentation and the related cover memo. The Committee noted that commitment decisions within these asset categories will be a function of the specific opportunities that are presented as the year progresses and their respective investment merits. Mr. Gill confirmed that the pacing schedule is flexible by design, and meant to serve as a strategic guide not a precise static plan. The Committee had a lengthy and robust conversation about the pacing analysis.

The Committee and Mr. Johansen discussed staff's involvement in the private equity and private debt investment manager due diligence process. Mr. Johansen noted the NHRS is heavily-dependent on NEPC to perform the bulk of due diligence, given limited System resources. In response to a question from Mr. Lagos, Mr. Gill confirmed that NEPC conducts an onsite visit with every one of the private equity and private debt managers that it recommends to its clients.

The Committee discussed how the investment program's actual future performance returns will impact subsequent years' commitments to private equity and private debt; issues and considerations associated with alternative investment databases and historical information; cash flow considerations associated with the various types of private equity and private debt strategies; and the risk/return profiles of different alternative investment strategies.

In response to questions from Mr. Lagos, Mr. Gill explained how low returns and poor market conditions would impact the alternative investment pacing schedule and overall total fund portfolio allocation. Mr. Gill indicated that in such a scenario the pace of future commitments would be reduced appropriately, given the annual program review and pacing plan approval process, preventing any drastic over-allocation to illiquid alternative investment strategies. The Committee noted its flexibility with regard to commitment amounts and investment decisions.

On a motion by Ms. Provencher, seconded by Mr. Sosnoff, the Committee unanimously approved the calendar year 2013 alternative investments pacing plan, as presented, specifically: 5-7 commitments of \$30-35 million to vintage year 2013 private equity and private debt funds.

Mr. Lagos noted that staff and NEPC have been working on a comparative investment fee analysis for the Board, and anticipate providing this analysis at the December Board meeting.

NEPC confirmed that their 2013 annual client conference is scheduled for May 13<sup>th</sup> and 14<sup>th</sup> at the Boston Convention & Exhibition Center.

Mr. Janeway entertained a motion to convene into non-public session under RSA 91-A:3, II(c) for the purpose of discussing a matter which, if discussed in public, would likely affect adversely the reputation of a person other than a member of the public body. A motion was made by Mr. O'Donnell and seconded by Mr. Jensen to enter into non-public session, in accordance with the aforementioned provision.

Roll call vote:

Aye: Mr. Janeway; Mr. Jensen; Mr. O'Donnell; Ms. Provencher; and Mr. Sosnoff

Nay: None

Motion carried.

The Committee discussed the capabilities of the System's alternative investment consultant.

A motion was made by Mr. O'Donnell and seconded by Mr. Sosnoff to conclude non-public session.

Roll call vote:

Aye: Mr. Janeway; Mr. Jensen; Mr. O'Donnell; Ms. Provencher; and Mr. Sosnoff

Nay: None

Motion carried.

On a motion by Mr. O'Donnell, seconded by Mr. Jensen, the meeting adjourned at 12:06 p.m.